

RUSSELL S. KROPSCHOT
Acting Commissioner



Financial Institutions Bureau
P.O. Box 30224
Lansing, Michigan 48909

John Engler, Governor

DEPARTMENT OF COMMERCE

Arthur E. Ellis, Director

January 6, 1992

TO THE BOARD OF DIRECTORS OF THE CREDIT UNION ADDRESSED:

The purpose of this letter is to clarify the Bureau's position regarding accrual of interest income on delinquent loans.

Article VII, Section 5(b) of the Standard Bylaws for Michigan state-chartered credit unions requires that accounting records be maintained in compliance with generally accepted accounting principles (GAAP) unless required otherwise by law or regulation. Guidance to GAAP Accounting is provided by the Auditing and Accounting Guide for Credit Unions, prepared by the Credit Unions Committee of the American Institute of Certified Public Accountants (AICPA), which states, in part, that "a credit union may suspend accrual of interest income on a loan when the payment of interest has become delinquent or collection of the principle has become doubtful".

In practice, credit unions have not been consistent as to when interest accrual is suspended on a delinquent loan, thereby causing interest income to be overstated on some credit union's financial statements.

It is the Bureau's policy that **interest should not be accrued on loans three months or more delinquent**. Interest previously accrued on a loan is to be reversed when the loan is determined to be a loss.

Please contact the Credit Union Division at (517) 373-6930 if you have questions regarding this letter.

This letter is to be made part of the minutes of your next meeting of the Board of Directors.

Sincerely,

A handwritten signature in dark ink, appearing to read "Michael N. Fitzgerald".

Michael N. Fitzgerald, CFE
Director
Credit Union Division

sll

